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Google Revenues Sheltered in No-Tax Bermuda Soar to $10 Billion

By Jesse Drucker - Dec 10, 2012

Google Inc. (GOOG) avoided about $2 billion in worldwide income taxes in 2011 by shifting $9.8 billion in revenues into a Bermuda shell company, almost double the total from three years before, filings show.

By legally funneling profits from overseas subsidiaries into Bermuda, which doesn't have a corporate income tax, Google cut its overall tax rate almost in half. The amount moved to Bermuda is equivalent to about 80 percent of Google's total pretax profit in 2011.

The increase in Google's revenues routed to Bermuda, disclosed in a Nov. 21 filing by a subsidiary in the Netherlands, could fuel the outrage spreading across Europe and in the U.S. over corporate tax dodging. Governments in France, the U.K., Italy and Australia are probing Google's tax avoidance as they seek to boost revenue during economic doldrums.

Last week, the European Union's executive body, the European Commission, advised member states to create blacklists of tax havens and adopt anti-abuse rules. Tax evasion and avoidance, which cost the EU 1 trillion euros ($1.3 trillion) a year, are "scandalous" and "an attack on the fundamental principle of fairness," Algirdas Semeta, the EC's commissioner for taxation, said at a press conference in Brussels.

'Deep Embarrassment'

"The tax strategy of Google and other multinationals is a deep embarrassment to governments around Europe," said Richard Murphy, an accountant and director of Tax Research LLP in Norfolk, England. "The political awareness now being created in the U.K., and to a lesser degree elsewhere in Europe, is: It's us or them. People understand that if Google doesn't pay, somebody else has to pay or services get cut."

Google said it complies with all tax rules, and its investment in various European countries helps their economies. In the U.K., "we also employ over 2,000 people, help hundreds of thousands of businesses to grow online, and invest millions supporting new tech businesses in East London," the Mountain View, California-based company said in a statement.

The Internet search giant has avoided billions of dollars in income taxes around the world using a pair of tax shelter strategies known as the Double Irish and Dutch Sandwich, Bloomberg News reported in 2010. The tactics, permitted under tax law in the U.S. and elsewhere, move royalty payments from subsidiaries in Ireland and the Netherlands to a Bermuda unit headquartered in a local law firm.

Last year, Google reported a tax rate of just 3.2 percent on the profit it said was earned overseas, even as most of its foreign sales were in European countries with corporate income tax rates ranging from 26 percent to 34 percent.

Foreign Taxes

At a hearing last month in the U.K., members of Parliament pressed executives from Google, Seattle-based Amazon.com Inc. (AMZN) and Starbucks Corp. (SBUX) to explain why they don't pay more taxes there.

The U.K., Google's second-biggest market, was responsible for about 11 percent of its sales, or almost $4.1 billion last year, according to company filings. Google paid 6 million pounds ($9.6 million) in U.K. income taxes.

Matt Brittin, Google's vice president for Northern and Central Europe, testified that the company pays taxes where it creates "economic value," primarily the U.S.

Still, Google attributes some profit based on technology created in the U.S. to offshore subsidiaries, lowering its U.S. taxes, according to company filings and people familiar with its tax planning. Google paid $1.5 billion in income taxes worldwide in 2011.

'Fair Share'

In the wake of the parliamentary hearing, the House of Commons issued a report last week declaring that multinationals "do not pay their fair share" of tax. The committee also criticized the U.K.'s tax collection agency, Her Majesty's Revenue & Customs, for "not taking sufficiently aggressive action" and called on the agency to "get a grip" on corporate tax avoidance.

A spokesman for HMRC said the agency "ensures that multinationals pay the tax due in accordance with U.K. tax law."

The French tax authority this year proposed increasing Google's income taxes by about $1.3 billion. The agency searched Google's Paris offices in June 2011 and removed computer files as part of an examination first reported by Bloomberg last year. Google is cooperating with French authorities and works with them "to answer all their questions on Google France and our service," the company said.

Italian Audit

In Italy, the Tax Police began an audit of Google last month and recently searched the company's Milan offices, as well as the offices of Facebook Inc. (FB), according to a person familiar with the matter. "It's very common for companies to be audited, and we have been working closely with the Italian authorities for some time," Google said. "So far we have not had any demands for additional tax in Italy."

Facebook, based in Menlo Park, California, is cooperating with the Italian tax authority and "we take our obligations under the Italian tax code very seriously," a company spokeswoman said.

In Australia, the country's assistant treasurer gave a speech last month outlining Google's tax avoidance strategies.

The use of offshore shelters to avoid corporate taxes has prompted calls for reform in the U.S. as well. The Treasury Department has repeatedly proposed since 2009, with little success, to make it harder for multinationals to bypass taxes by shifting profit into tax havens.

Transfer Pricing

Multinational companies cut their tax bills using "transfer pricing," paper transactions among corporate subsidiaries that allow for allocating income to tax havens and expenses to higher-tax countries.

In Google's case, an Irish subsidiary collects revenues from ads sold in countries like the U.K. and France. That Irish unit in turn pays royalties to another Irish subsidiary, whose legal residence for tax purposes is in Bermuda.

The pair of Irish units gives rise to the nickname "Double Irish." To avoid an Irish withholding tax, Google channeled the payments to Bermuda through a subsidiary in the Netherlands -- thus the "Dutch Sandwich" label. The Netherlands subsidiary has no employees.

The Dutch unit's payments to the Bermuda entity last year were up 81 percent to $9.8 billion from $5.4 billion in 2008. Google's overseas sales have increased at about the same rate.

Google's overall effective tax rate dropped to 21 percent last year from about 28 percent in 2008. That compares with the average combined U.S. and state statutory rate of about 39 percent.

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